

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

**SLAUGHTER NECK COMMUNITY
ACTION AGENCY, INC.**

USE OF STATE FUNDING

SPECIAL INVESTIGATION

FIELDWORK END DATE: MAY 13, 2009

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State of Delaware
Office of Auditor of Accounts
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At a Glance

Working Hard to Protect YOUR Tax Dollars

Why We Did This Review

The Office of Auditor of Accounts (AOA) received an allegation regarding improper use of State funds by the Slaughter Neck Community Action Agency, Inc. (SNCAA). SNCAA received Grant-In-Aid funds from the State of Delaware Treasurer's Office and contract payments from the Delaware Health Care Commission (DHCC).

Background

SNCAA offers a broad array of services and programs for senior citizens, low-income, working poor, and welfare recipients in the communities of Slaughter Neck, Lincoln, Ellendale, and Milton.

SNCAA received Grant-In-Aid funds of \$57,000 in FY2008 and is approved for a total of \$52,400 in FY2009. As of January 31, 2009, \$39,300 of the FY09 funds were received.

DHCC has contracted with SNCAA to provide services for the Community Healthcare Access Program (CHAP) to link uninsured Delawareans to a regular source of primary care. SNCAA received contract payments totaling \$44,362.50 in FY08 and \$3,602.50 in FY09 as of January 31, 2009.

For further information on this release, please contact:

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Slaughter Neck Community Action Agency, Inc.
USE OF STATE FUNDING

What We Found

Grant-In-Aid funds were spent for the purposes of SNCAA programs as stated in the FY08 and FY09 applications. However, SNCAA did not have adequate supporting documentation for \$2,051.72 of expenditures. Hence, AOA could not determine the propriety of these transactions.

SNCAA received \$43,230 in CHAP funds for the FY08 contract. \$10,268.44 was not spent for purposes of the CHAP program. In addition, SNCAA did not have adequate supporting documentation for \$22,020.64 of expenditures. Hence, AOA could not determine the propriety of these transactions. The CHAP program discontinued funding to community centers in FY09.

In addition, other internal control weaknesses were noted including a lack of segregation of duties and insufficient supporting documentation for grant and contract expenditures.

What We Recommend

SNCAA should consult with DHCC to discuss restitution of the funds.

In order to continue receiving Grant-In-Aid funds, SNCAA should ensure that all transactions are adequately supported. Should SNCAA continue to lack supporting documentation, AOA will recommend all future Grant-In-Aid funding be discontinued.

Although the CHAP contract was not renewed and SNCAA was not funded for this program for the current fiscal year, DHCC should not consider SNCAA as a recipient of any future funding due to the lack of supporting documentation maintained for the CHAP expenditures.

Please read the complete report for a full list of findings/recommendations and to review SNCAA's response to our findings.

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AUDIT AUTHORITY

Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusinesslike practices;
4. Recommendations for greater simplicity, accuracy, efficiency, and economy; and
5. Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary.

ALLEGATION AND BACKGROUND

ALLEGATION

The Office of Auditor of Accounts (AOA) received an allegation regarding improper use of State funds by the Slaughter Neck Community Action Agency, Inc. (SNCAA). SNCAA received Grant-In-Aid funds from the State of Delaware Treasurer's Office and contract payments from the Delaware Health Care Commission (DHCC).

BACKGROUND

SNCAA was founded in 1967 as a 501(c)(3) non-profit organization. SNCAA's mission is:

- To evaluate and coordinate programs designed to combat problems of communication, recreation, education, drug/alcohol abuse, and poverty within the community.
- To stimulate and encourage community involvement in programs that will assist and improve conditions under which people live, learn, and work.
- To network with other existing public, private, civic, and faith-based organizations that have similar concerns, as they relate to community development.

SNCAA offers a broad array of services and programs for senior citizens, low-income, working poor, and welfare recipients in the communities of Slaughter Neck, Lincoln, Ellendale, and Milton. SNCAA provides quality child care, senior services, recreation, and tutorial programs for high-risk families and has partnered with federal, state, local, county, and faith-based organizations to provide support services to the citizens.

Grant-In-Aid

Grant-In-Aid is an appropriation made by the General Assembly to support the activities of non-profit organizations, which provide services to the citizens of Delaware. The purpose of Grant-In-Aid is to provide supplemental funding to service agencies and should not be construed as a sole source of funding.

To qualify for Grant-In-Aid an agency must have a 501(c)(3) tax-exempt status from the Internal Revenue Service and have been incorporated in the State of Delaware for at least two years prior to the beginning of the fiscal year for which they are applying. Agencies are to submit the original application and a copy as well as their most recent audit.

Each category of organizations is assigned a team of legislators from the Joint Finance Committees. The teams review the applications assigned to that group and make funding recommendations to the full Committee. The Joint Finance Committee makes decisions regarding Grant-In-Aid in late June. Historically, the Grant-In-Aid bill is the final appropriations bill enacted by the legislature on June 30th.

SNCAA received Grant-In-Aid funds of \$57,000 in FY2008 and is approved for a total of \$52,400 in FY2009. As of January 31, 2009, \$39,300 of the FY09 funds were received.

ALLEGATION AND BACKGROUND

DHCC

The Delaware General Assembly created the Delaware Health Care Commission (DHCC) in June of 1990 to develop a pathway to basic, affordable health care for all Delawareans. DHCC is expressly authorized to conduct pilot projects to test methods for catalyzing private-sector activities that will help the State meet its health care needs. DHCC has generally followed a strategy built on the notion that initial efforts should target areas most in need and gradually build toward a more comprehensive plan. Since 1995, DHCC has used a committee system as a means of reaching out to the community and involving those impacted by its decisions in the consensus building process.

DHCC has contracted with SNCAA to provide services for the Community Healthcare Access Program (CHAP) to link uninsured Delawareans to a regular source of primary care. SNCAA received contract payments totaling \$44,362.50 in FY08 and \$3,602.50 in FY09 as of January 31, 2009.

OBJECTIVES, SCOPE, & METHODOLOGY

OBJECTIVES

The objective of the investigation was to determine if SNCAA used State funds in accordance with their intended purpose.

SCOPE

The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

AOA examined receipts and disbursements incurred by SNCAA for the period July 1, 2007 through January 31, 2009 as they relate to Grant-In-Aid and Delaware Health Care Commission funds.

METHODOLOGY

Investigative techniques included:

- Interviews and inquiry.
- Inspection and confirmation of documentation.

CONCLUSIONS

ALLEGATION

SNCAA improperly used State funds.

RESULTS OF TESTING

Grant-In-Aid is awarded as a lump sum and specific amounts do not have to be used on specific programs. The Grant-In-Aid funds were spent for the purposes of SNCAA programs as stated in the FY08 and FY09 applications.

The CHAP program discontinued funding to community centers in FY09. SNCAA received a payment of \$4,735 in FY08 for the final payment of the FY07 contract and \$3,602.50 in FY09 for the final payment of the FY08 contract. The total FY08 contract amount of \$43,230 was verified as received by tracing the monthly payments to SNCAA's general ledger and bank statements. According to the FY08 CHAP contract, the funds were to be used for the following purposes:

\$34,500	To employ (2) part-time Community Resource Workers at \$17,250 each
4,800	For travel costs
<u>3,930</u>	For indirect costs (10%)
<u>\$43,230</u>	Total Contract (\$3,602.50 per month)

SNCAA employed two part-time employees during FY2008 until one individual submitted her resignation effective December 15, 2007. SNCAA failed to employ a second part-time employee, causing \$7,685.78 in unused salary funding, and \$2,582.66 in unused travel funding. Therefore, SNCAA only spent \$32,961.56 of the \$43,230 total contract funding. The difference of \$10,268.44 was not spent for purposes of the CHAP program.

<u>Purpose</u>	<u>Contract Funding</u>	<u>Amount Expended</u>	<u>Unused Funding</u>
Two part-time Community Resource Workers	\$ 34,500	\$ 26,814.22	\$ 7,685.78
Travel Costs	4,800	2,217.34	2,582.66
Indirect Costs	3,930	3,930	-
Total	<u>\$ 43,230</u>	<u>\$ 32,961.56</u>	<u>\$10,268.44</u>

In addition, other internal control weaknesses were noted. See the *Findings and Recommendations* section of this report for further details.

CONCLUSION

Substantiated.

FINDINGS AND RECOMMENDATIONS

Finding #1: Segregation of Duties

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission "*Internal Control - Integrated Framework*" defines control activities as ". . . policies and procedures that help ensure management directives are carried out . . . They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties." Further, segregation of duties is defined as where "Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions. For instance, responsibilities for authorizing transactions, recording them and handling the related asset are divided."

Condition

The SNCAA Treasurer approves transactions for payment, maintains the transaction data in QuickBooks, reconciles the bank statements, and is an authorized signer on the bank accounts.

Cause

Lack of knowledge of the need for adequate segregation of duties or mitigating controls.

Effect

Lack of segregation of duties increases the risk of fraud, theft, and misappropriation of assets as well as inhibits the detection of errors and fraud.

Recommendation

SNCAA should adequately segregate duties or implement mitigating controls related to bank accounts. Possible methods include: remove the Treasurer as an authorized signer; have a separate Board member open and review the bank statement; or have a separate Board member review the bank reconciliation and supporting detail.

Auditee Response

The response of the SNCAA is two-fold. The Treasurer is a vital and critical member of the Board of Directors for SNCAA. We depend on the Treasurer to be honest, forthright, and to have the utmost integrity. We also expect the Treasurer to be efficient and effective, and to abide by the Bylaws as established for his/her position. Currently, as indicated in the Bylaws of the SNCAA, the Treasurer has been authorized to provide the same duties as outlined by the AOA as being in conflict. In the almost 40 year history of the SNCAA, the Treasurer's performed these duties without injury or harm, despite this being a volunteer position, requiring hours and hours of time without any compensation. However, given current political and social realities, the SNCAA does see the merit to this recommendation and in response is seeking ways to better segregate the duties of the Treasurer in order to remove the very appearance of any impropriety. In addition, although we are in transition, a new Treasurer will be installed by July 1, 2009 and a new system will be in place so that the risk of fraud, theft, and misappropriation of funds will be lessened and better monitoring of financial assets would take place.

FINDINGS AND RECOMMENDATIONS

Finding #2: CHAP- Use of Grant Funding

Criteria

According to the Community Healthcare Access Program (CHAP) contract between the Delaware Health Care Commission and Slaughter Neck Community Action Agency, "Slaughter Neck shall undertake and fully perform . . . all services outlined in this proposal . . . with a revised budget to include the following:

- Two part-time Community Resource Workers at \$17,250 each,
- Travel in the amount of \$4,800,
- Indirect costs at 10% for a total of \$3,930; and
- Supplies will be provided by the Enrollment and Marketing vendor."

Condition

According to Slaughter Neck's report of expenditures, the agency only spent \$32,961.56 of the \$43,230 in grant funding. The difference of \$10,268.44 was not spent for purposes of the CHAP program.

Cause

One of Slaughter Neck's Community Resource Workers resigned on December 15, 2007. The agency failed to replace a second part-time employee resulting in the unspent funds.

Effect

SNCAA used \$10,268.44 of CHAP funding for purposes which were not within the specifications of the CHAP contract.

Recommendation

The Slaughter Neck Community Action Agency should consult with the Delaware Health Care Commission to discuss restitution of the funds.

Auditee Response

Originally, the position of the SNCAA was that the funds in question, \$10,268.44, were never received by the agency. Upon further review, and an additional meeting with AOA, information was obtained that allowed a greater understanding of what funds we had received, and that they were not spent for purposes of the CHAP program. Despite the fact that each transaction had to be invoiced, we also learned that a set amount of money to compensate two (2) employees was sent regardless of the amount of work completed. This allowed SNCAA to pay the employees wages and reimburse them for mileage. The problem occurred when one employee resigned and the same amount of money continued to be sent. The left over monies were not sent back to CHAP, but remained in the SNCAA general fund and consequently were used for other purposes. This may have been inadvertent, as the SNCAA was unsure as to how to proceed, and 6 months later the program was over any way.

FINDINGS AND RECOMMENDATIONS

Slaughter Neck Community Action is very remorseful for this incident, and is in the process of taking steps to remedy the situation. These steps include; contacting CHAP administration to work out a repayment plan, and putting steps in place which will insure that the funds from separate grants are segregated into separate accounts and appropriately monitored. In addition, a watchdog group will be selected as a safeguard to manage and evaluate the grants to ensure that we gain a full understanding of the grant, and that we follow each grant to the letter. Finally, we will submit our agency to continued outside scrutiny and auditing and allow for "openness" about our operations, to ensure that nothing is misconstrued or overlooked. Our hope in this entire situation is that this will allow us to become better managers in the future and provide the backdrop for improved service provision and financial accountability.

Finding #3: Inadequately Supported Transactions

Criteria

Internal Control - Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), defines control activities as policies and procedures that help ensure management directives are carried out. Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, supporting documentation for all such activities should be referred to or maintained with the financial documents.

Condition

AOA found the following while testing Grant-In-Aid expenditures for FY2008 and FY2009:

	Transactions Inadequately Supported	Transactions Expended without Approval	Transactions not Cleared on the Bank Statement	Transactions in which Dual Signatures could not be verified
Number of Exceptions	14 of 59	25 of 59	1 of 55	18 of 55
Value of Exceptions	\$2,051.72	\$3,787.70	\$100.00	\$2,572.09

In addition, AOA found the following while testing CHAP expenditures for FY2008 and FY2009:

	Transactions Inadequately Supported	Transactions Expended without Approval	Transactions not Cleared on the Bank Statement	Transactions in which Dual Signatures could not be verified
Number of Exceptions	42 of 71	60 of 71	1 of 71	15 of 71
Value of Exceptions	\$22,020.64	\$29,606.46	\$45.26	\$8,528.77

FINDINGS AND RECOMMENDATIONS

The unsupported CHAP expenditures were described as follows:

Payroll	\$21,111.07
Mileage	659.57
Other expenses	<u>250.00</u>
Total unsupported	\$22,020.64

Due to the lack of supporting documentation, AOA could not verify that the expenditures were used in accordance with the applicable grant specifications.

Cause

Failure to draft formal policies and procedures explaining the expenditure and revenue process, and lack of management oversight contributed to the improper documentation.

Effect

Lack of adequate documentation raises questions about the validity of transactions and increases the possibility that unauthorized transactions may occur. Incorrect recording of information may cause records to be inaccurate or not useful.

Recommendation:

In order to continue receiving Grant-In-Aid funds, SNCAA should ensure that all transactions are adequately supported. Should SNCAA continue to lack supporting documentation, AOA will recommend all future Grant-In-Aid funding be discontinued.

Although the CHAP contract was not renewed and SNCAA was not funded for this program for the current fiscal year, DHCC should not consider SNCAA as a recipient of any future funding due to the lack of supporting documentation maintained for the CHAP expenditures.

Auditee Response

The SNCAA is in full agreement with AOA on this finding and as stated previously, making changes in the person as well as the position of Treasurer in order to better monitor, document, and evaluate the financial integrity of this organization. We realize that in order for the SNCAA to fulfill its mission, we need the funds that are granted by the State of DE. We also realize that in the past, various practices and habits may not have the most professional or efficient. To this end, there is a new administration in place which is seeking to restore trust and promote wellness, within the Slaughter Neck/Lincoln community and elsewhere.

FINDINGS AND RECOMMENDATIONS

Auditee Response to All Findings:

Path Forward:

The path forward includes providing detailed timesheets, receipts and invoices for all transactions (including, but not limited to general expenditures, reimbursements, mileage forms, gift cards, etc.), a listing of all transactions, and better methods for documentation, monitoring, and evaluation.

Additionally, the Office of the Treasurer will be evaluated and the duties will be segregated in order to prevent risk of fraud or misuse of funds, as recommended.

Finally, the entire operational components of the SNCAA will be thoroughly evaluated and examined to revamp outdated traditions and practices, in order to become more efficient and effective in how we go about doing our business of helping people and communities.

DISTRIBUTION OF REPORT

Copies of this report have been distributed to the following public officials:

The Honorable Jack Markell, Governor, State of Delaware

The Honorable Russell T. Larson, Controller General, Office of the Controller General

The Honorable Joseph R. Biden, III, Attorney General, Office of the Attorney General

Representative Dennis P. Williams, Chair, Joint Finance Committee

Officials of Audited Entities

Mr. Troy Hazzard, Board President, Slaughter Neck Community Action Agency, Inc.

Ms. Paula Roy, Executive Director, Delaware Health Care Commission